


1969 ANNUAL REPORT

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ALMINEX
LIMITED



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ALMINEX LIMITED

Head Office

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Eleventh Annual Report *December 31* *1969*

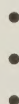
DIRECTORS

F. R. BURTON	TORONTO
D. R. DELAPORTE	TORONTO
W. F. JAMES	TORONTO
D. R. LOCHHEAD	TORONTO
J. N. STEPHEN	CALGARY
J. B. WEBB	CALGARY

OFFICERS

F. R. BURTON	PRESIDENT
W. F. JAMES	VICE-PRESIDENT
J. N. STEPHEN	VICE-PRESIDENT AND GENERAL MANAGER
D. G. C. MENZEL	SECRETARY
A. E. SIVERTSON	ASSISTANT SECRETARY

TRANSFER AGENT AND REGISTRAR
CROWN TRUST COMPANY
MONTREAL, TORONTO AND CALGARY



AUDITORS
THORNE, GUNN, HELLIWELL & CHRISTENSON

ALMINEX LIMITED

Five Year Summary

	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>
FINANCIAL					
Gross Production (after royalty)	\$ 4,775,003	\$ 4,713,879	\$ 4,397,132	\$ 3,802,247	\$ 3,635,583
Net Production Income (after operating costs)	4,251,959	4,176,554	3,877,246	3,332,191	3,237,582
Administrative and General Expense	154,097	150,360	152,851	145,863	135,936
Interest Expense	52,150	96,075	129,399	142,114	135,691
*Exploration Expense	1,022,724	1,217,884	1,074,540	749,111	623,341
Depletion, Depreciation and Write-offs	1,400,604	1,242,889	1,280,081	1,072,420	973,734
Cash Earnings after all cash expenses	3,038,017	2,735,134	2,530,494	2,295,103	2,342,614
Net Income	943,413	747,245	917,118	1,222,683	1,385,445
Bank Loans Outstanding	872,000	734,000	1,812,000	2,426,000	2,390,000
OPERATING					
Net Daily Production:					
Oil and Condensate (barrels)	4,003	3,762	3,446	3,199	3,025
Natural Gas (thousands of cubic feet)	15,848	13,900	13,400	14,047	14,523
Reserves — Net Proven:					
Crude Oil (barrels)	38,430,000	39,280,000	40,440,000	41,140,000	41,670,000
Natural Gas Liquids (barrels)	4,040,000	4,280,000	4,500,000	4,560,000	3,470,000
Natural Gas (billions of cubic feet)	166.54	160.39	145.96	149.25	148.06
Sulphur (long tons)	228,000	237,000	244,000	290,000	272,000
Net Acreage	7,183,206	6,947,635	2,707,183	2,691,002	716,527

*Includes exploration drilling, dry hole costs, geological, geophysical and unproven property expense.

ALMINEX LIMITED

Report of the Directors

TO THE SHAREHOLDERS:

Your Directors are pleased to present their report for the year ended December 31, 1969.

THE COMPANY

FINANCIAL

Alminex's 1969 gross revenue after royalties was \$4,790,032, a modest increase of 1.1% over 1968. Net production income after operating expenses showed a slight increase of 1.8% over the previous year to \$4,251,959. After deducting administrative and general expense of \$154,097, interest charges of \$52,150 and exploration costs of \$1,022,724, net cash income was \$3,038,017, an increase of 11.1%. Notwithstanding increased capital cost allowances and provision for depletion, net income, mainly because of lower exploration costs and reduced income tax payments, was \$943,413 an increase of 26.3% compared to 1968. Dividends of \$917,500 or 12¢ per share were paid to the shareholders.

Capital expenditures increased in 1969, totalling \$1,182,454 of which \$267,679 was on development, \$364,237 on plant facilities, \$291,324 on production and other equipment and \$259,214 on land acquisitions. As a result, bank loans outstanding at December 31, 1969, totalled \$872,000 as compared with \$734,000 at the end of 1968.

PRODUCTION

The production of crude oil plus natural gas liquids (NGL) by your Company averaged 4,003 barrels per day net after royalty, a 6.4% increase over 1968. The highest rate during the year was

recorded in December when an average of 4,526 bbls./day were produced, a new record for Alminex. Production of crude oil increased by 5.1% over 1968 and totalled 1,212,015 barrels. Natural gas liquids production was up 11.3% to 248,931 barrels. The net average daily production of gas sold increased to 15.8 MMcf. (million cubic feet), up 14.3%. Total production was 5,785 MMcf, an increase of 14.0% over the previous year. These figures reflect the growing demand for oil, NGL and natural gas and the increases achieved by Alminex were more than sufficient to compensate for the continuing decline in its sulphur sales.

Alminex's net average daily production of sulphur was 27 long tons and total production was 9,673 long tons, essentially the same as for 1968. However, only 84% of the sulphur produced was sold and then at substantially lower prices than in previous years. While it is hoped that sulphur prices are near their low point, the short term outlook is not bright.

Comparative figures for oil, NGL, natural gas and sulphur production, by fields, are shown in tables at the end of the report.

RESERVES

Your Company's net proven reserves of crude oil and natural gas liquids as of December 31, 1969, were 42,470,000 barrels, a decrease of 1,090,000 barrels or 2.5% from 1968. Exploration and development succeeded in adding only minor reserves of crude oil at Kyle, Mitsue and Medicine River hence the decrease was almost entirely due to production during the year. Some success was achieved in increasing the reserves of natural gas which were up 3.8% to 167 billion cubic feet (Bcf) after the year's production. All of the increase occurred as a result of discoveries

made at Marten Hills. Net proven reserves of sulphur were 228,000 long tons, down 3.8% from 1968, the result of production.

A table at the end of this report compares proven and probable reserves at December 31, 1969, with those at the end of the previous year.

EXPLORATION

Twenty-six exploratory wells were drilled on your Company's properties in 1969, compared to 21 during the previous year. Seismic programs were undertaken at Hutton, Ferrier and Whitecourt in Alberta, Datin in British Columbia and North Cameron Hills in the Northwest Territories. Alminex participated in 17 of these wells and the remainder, including the two North Sea tests, were completed by farmees at no cost to your Company. The result was three gas discoveries, two at Marten Hills and one at Jenner, Alberta, a gas and heavy oil discovery at Dina, Alberta, which is presently suspended, and two apparent oil discoveries at Kyle, Saskatchewan, which are being tested. The remaining 20 wells were dry. At year-end one well was being drilled in the Steen River area of northern Alberta and drilling operations at a second location in the Yukon Territory were suspended for most of 1969, and are still suspended.

DEVELOPMENT

Alminex shared in drilling 14 development wells in 1969 compared with 17 in 1968. Of these, two were oil wells, 10 were gas wells and two were dry and abandoned. Several of the gas completions were drilled to meet the higher deliveries required by amended gas contracts with Trans-Canada Pipe Lines Limited which came into effect November 1, 1969. Additional wells will be needed in future years to maintain the higher rates of production. The Carstairs gas plant was enlarged and the new facilities were being tested at year-end. The gas plants at Whitecourt and Marten Hills were completed and went on stream during November. On the other hand the Braeburn gas plant has been

shut down, it being uneconomic to make the necessary plant repairs to continue production.

OUTLOOK

During 1970 Alminex will continue its efforts to increase its reserves and production of oil, NGL and natural gas. Your Company's exploration policy is directed towards new field discoveries and while this carries an attendant high risk, there are also opportunities for substantial financial reward. Most of Alminex's exploration activity will be carried on in Alberta because of the availability of markets and the potential of areas still largely unexplored. One such area lies adjacent to the mountains in the western part of the province where a 12.5% interest in 140,000 reservation acres has been acquired. A seismic program is presently underway.

Alminex expects to participate in two wildcat wells in the southern part of the Northwest Territories. During 1969, your Company and two equal partners filed on 861,351 acres on and near Great Bear Lake also in the Northwest Territories, and it is likely that a marine seismic survey will be undertaken this coming summer.

In the Arctic Islands, a geological survey was carried out last summer on northwestern Victoria and northern Stefansson Islands. Alminex filed on 27,240 acres on Ellesmere Island in 1969 and has a 100% interest in 5,355,541 acres of which the major part is located on Victoria and Stefansson. The decision has been taken to continue exploration of all your Company's holdings. Regarding those lands previously farmed out to Panarctic Oils Ltd., totalling 1,986,823 acres, it is indicated that Panarctic will elect to spend the required \$30 million in exploration of its total holdings which will entitle it to a maximum 85% working interest in your Company's acreage. With the growing interest in Arctic exploration, despite the problems and expense, it is expected that Alminex's large diverse land spread will prove a valuable asset in the coming years.

The strong growth in demand, particularly in export markets, for western Canadian oil and gas is of major interest to Alminex. During 1969 large capital expenditures were made to meet the higher demands of the gas transmission companies and increases in revenue were not felt until late in 1969. Efforts are being made to increase oil production to meet market requirements which will entail further capital expenditures in 1970. Alminex has interests in several fields with large reserves i.e. Mitsue, Swan Hills and Virginia Hills, which benefit most in an expanding market, but considerable time and expense are needed to increase production.

There seems little doubt that sales of crude oil, NGL and natural gas will increase in 1970 and result in higher revenues for your Company. However, the attitudes of the Canadian and United States governments are critical in this regard. Sulphur sales are expected to continue their decline but probably at a less rapid rate than in 1969.

ORGANIZATION

In May, 1969, Mr. D. R. Lochhead was elected to the Board of Directors to fill the vacancy created by the death of Dr. H. J. Fraser.

Your Directors again wish to record their appreciation to all members of the staff for their untiring service rendered during the year.

THE INDUSTRY

Canadian production of crude oil and NGL during 1969 increased to an average of 1,315,728 bbls./day, up almost 10% over 1968. As production in Saskatchewan decreased, most of this increase in sales accrued to Alberta producers. Continuing the pattern of recent years domestic markets consumed a decreasing percentage of this additional production. Domestic demand in 1969 was 722,308 bbls./day, up 5.3%. However, the remainder was exported to the United

States, averaging 584,731 bbls./day, an increase of 15.9% over the previous year. Districts I, II and IV, which include the eastern and mid-western areas of the United States, increased their take to 365,801 bbls./day, a jump of 11.3%. During the early months of 1969 exports to these markets were restricted by government policy, but during December, in addition to existing markets, 20,000 bbls./day began flowing into Interprovincial Pipe Line Company's new loop to the Chicago area and through-put was expected to reach 90,000 bbls./day by February, 1970. The United States west coast, District V, increased its imports of Canadian oil by 24.3% over 1968, to an average of 218,930 bbls./day. This reversed the market decline in this District which occurred during 1968 and, while long term prospects remain in doubt, the delays in beginning construction of the Trans Alaska Pipeline System indicate that it will remain a sales growth area over the short term. There are alternative larger markets available for Alaska production in eastern and midwestern United States if transportation by Arctic tanker or overland pipeline through Canada is feasible. The "Manhattan" experiment and Imperial Oil Limited's reported oil discovery in the Mackenzie Delta have enhanced these prospects. The importation of oil is undergoing a reappraisal by the United States Government and its decision will affect future Canadian sales.

Canadian raw natural gas production increased to a daily average of 5,602 MMcf, up 15.0% over 1968, and gas sales increased to a daily average of 4,080 MMcf, up 15.7%. Markets in Canada took a daily average of 2,350 MMcf, an increase of 12.1%. The growing inability of United States production to meet increasing domestic demand has provided an expanding market for Canadian natural gas and is evident in their increased consumption which was up 10.8% over 1969 to a daily average of 1,830 MMcf. United States demand has increased competition among purchasers for Canadian gas and has resulted in higher prices for new supplies.

WHITE PAPER

The Canadian Government in its Proposals for Tax Reform (the "White Paper") recommends that the present 33 $\frac{1}{3}$ % corporate depletion allowance become a maximum allowance which must be "earned" by the expenditure on eligible exploration and development of \$3 for each \$1 of depletion allowance claimed and that the present depletion allowance on dividends paid to Canadian shareholders be abolished.

These proposals, if implemented, will have the following results:

(a) as share values reflect in large part the value of underlying petroleum and natural gas reserves, the increase of 50% in the effective rate of tax will adversely affect share values by decreasing the amounts which will be realized on the sale of reserves;

(b) if no eligible expenditures are made, then total corporate and personal taxes for most Cana-

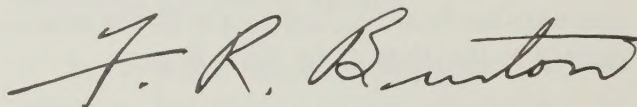
dian individual shareholders will increase by over 25%;

(c) for each \$1,000 of eligible expenditures made the combined corporate and personal tax reduction for Canadian shareholders in the 30% tax bracket will be only \$60; for Canadian shareholders in the 50% tax bracket, only \$43 but for non-resident shareholders, \$145 in Canadian taxes; and

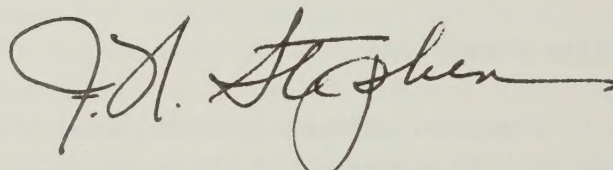
(d) for each \$10 of tax reduction through the claiming by a corporation of "earned depletion" the taxes payable by Canadian individual shareholders in the 50% tax bracket will be increased by \$7.50 over what they would have been if no earned depletion were claimed.

The results of the Proposals coupled with the proposed capital gains tax leave very little incentive for petroleum exploration by Canadians. As non-residents are benefited more than Canadians under the proposed depletion rules, take-overs by non-residents will be encouraged.

On behalf of the Directors,



President



Vice-President and
General Manager

Toronto, Ontario
March 31, 1970

Notes on Operations

EXPLORATION

Saskatchewan

The Plato oil field in western Saskatchewan, which produces from the Viking sand (Cretaceous), has undergone extensive exploration and development in recent months. Your Company has a 33.3% interest in P. & N.G. Reservation No. 1954, comprising 100,000 acres, located approximately six miles from production. To evaluate this large land spread, Alminex participated in drilling four wells. In one, the Viking was not developed and in another it was water-wet, but the two remaining tests, Cdn-Sup Alminex Elrose 6-23-23-14 W3M and Cdn-Sup Alminex Elrose 6-30-23-14 W3M, were apparent oil discoveries. However, they are still undergoing testing and their potential has not yet been evaluated.

Alminex made two farmouts, both of which proved to be dry. Summit Westates Carilaw 3-16-7-5 W2M was located in southeastern Saskatchewan and tested the Mississippian, the primary producer in the area, without success. In southwestern Saskatchewan, Alminex Superb 4-13-33-25 W3M, a potential gas well from the Bakken sand (Mississippian), has remained standing since its discovery in 1965 because reserves were too small to justify a pipeline. A previous offset drilled to the northwest, found the sand wet. In 1969, INC Alminex Superb 6-18-33-24 W3M, which attempted to extend gas production to the east, also failed.

Southern Alberta

Alminex participated to the extent of 15% in an attempt to extend the Pendor gas field which produces from the Basal Quartz sand (Cretaceous), but CMG et al Pendor 6-1-4-9 W4M failed to find production. Another attempt to discover shallow gas reserves in the Cretaceous sands, Mana et al Tide Lake 11-33-18-10 W4M, also failed. Alminex had joined in a pooling of acreage in order to drill this well and had a 6.25% interest. Following a seismic program, a second well, CEGO et al Hutton 7-11-24-15 W4M, was drilled on the large farm-in negotiated in 1968 in the Hutton area, but no production was found after drilling to the Elk Point (Devonian). Alminex's interest was 30% and with our partners we earned a 50% interest in 12,800 lease acres. Alminex joined in one farmout and the well, Empire St. et al Jenner

6-31-19-9 W4M, was completed as a small gas discovery in shallow Cretaceous sands. Your Company retained a small overriding royalty.

Central Alberta

A Wholly-owned well, Alminex Husky GNOL Dina 11-11-46-1 W4M, discovered heavy oil and gas in separate Cretaceous sands and is presently suspended after running production casing. Home Almx Blueridge 11-32-58-11 W5M, Alminex 25%, was drilled on P. & N.G. Reservation No. 1269, located immediately south of the Whitecourt gas field. The primary objective was the Nordegg sand (Jurassic), but it was absent through erosion. Alminex participated 8.3% in H.B. et al Swartz Lake 11-26-66-12 W5M, located on one of several lease blocks in which Alminex has an interest northeast of the Freeman oil field. The Swan Hills member (Devonian), the primary oil producer in the area, was thin and lacked porosity.

The Marten Hills field produces most of its gas from the Cretaceous Wabiskaw sand. The limits of the pool are presently ill-defined and of three wells drilled in 1969 to extend production, two succeeded and one failed. Alminex shared 25% in these tests. The successful wells were Home Almx KCL Marten H. 10-36-73-24 W4M and Home Almx KCL Marten H. 6-24-74-25 W4M.

Two farmout wells were drilled on lands in which Alminex has an interest. Can. Delhi et al Wolf 6-10-52-16 W5M was a deep, but dry test to the Cambrian and Cdn. Sup. et al Neerlandia 11-8-61-5 W5M was abandoned in the Wabamun formation (Devonian).

Northern Alberta

Results have continued to be disappointing on the large acreage holdings in which Alminex has either a 25% or 50% interest in the Meander River area, located between 25 and 90 miles east of the Zama Lake producing area. Two further wells were drilled to test the primary objectives, the Keg River and Slave Point formations (Devonian), but both were unproductive and were abandoned in the Precambrian. Home Alminex Melvin 10-17-115-23 W5M, located on P. & N.G. Reservation No. 815 owned equally with Home Oil Company Limited, was spudded in December, 1968. Home Almx et al Caribou 7-28-116-15 W5M, a farm-in, was situated on P. & N.G. Reservation No. 564 on the east side of the Meander River area and Alminex earned a 25% interest in 99,840 acres for

paying 50% of the cost of drilling. All of your Company's reservations in this area have been converted to lease. Those selected from P. & N.G. Reservation No. 815 were farmed out to Central-Del Rio Oils Limited. During the early months of 1970 Central-Del Rio will complete a seismic program on and near the leases, but in order to earn an interest in the lands it must drill a Precambrian test.

Shell ARCO et al Cadotte 9-25-87-17 W5M, located on lands farmed out by Alminex and its partners, failed to find production and was abandoned.

Late in December, Abidonne et al Steen 1-15-122-21 W5M was spudded. The well is testing a structure defined by seismic and is located on a farm-in. Alminex is participating 33.3% in the well which has as its objectives the Slave Point and Keg River formations and will earn a 16.7% in the lands when it is completed.

British Columbia

Alminex participated to the extent of 25% in only one well in this province during 1969. ARCO et al Datin b-70-H 94-I-15, located following an extensive seismic survey, had gas in the Slave Point formation (Devonian) as its objective. While the formation was porous it proved to be wet. The leases which were earned as a result of drilling were surrendered back to the Crown.

Yukon and Northwest Territories

Alminex put up 25% of the cost of Canso et al N. Cameron Hills E-69, the second well drilled on Permit 4587, a farm-in located just north of the Alberta boundary. The objectives, the Keg River and Slave Point formations, were unproductive and with the well's abandonment, the farmee group completed earning a 50% interest in the entire permit comprising 63,854 acres. A short distance north, and part of the same farm-in, Permit 4588 will be drilled in February, 1970. Alminex will again share 25% in the well's cost and will earn a 12.5% interest in 31,767 acres.

In the northern Yukon Territory, drilling operations at Toltec Peel River YT N-77 remained suspended, only minor progress being made in 1969. The farmees have yet to complete their obligations under the agreement in order to earn a 60% interest in Permits 5713-5715, comprising 130,892 acres.

Arctic Islands

An extensive geological reconnaissance on Victoria and Stefansson Islands was undertaken on behalf of Alminex by J. C. Sproule & Associates Ltd. during the summer of 1969. The major part of Alminex's wholly-owned acreage in the Arctic is located on these Islands. A preliminary report has been received and is undergoing study. Plans for the further exploration of these and Alminex's other permits are being formulated and are likely to take the form of geophysical exploration.

The oil show and the large gas flows obtained in the well, Panarctic Drake Point C-67, on north-east Melville Island are encouraging and the further activities of Panarctic Oils Ltd. and other companies will do much to increase the geological and other knowledge necessary to successfully explore and develop the oil and gas potential of the area.

North Sea

Both wells located in the North Sea, off the east coast of England, were dry and abandoned. Drilling operations were essentially normal due to moderate weather conditions and experienced personnel. Alminex (U.K.) Limited had a 25% interest in Home Alminex CPOG 36/23-1 and Home Alminex CPOG 41/8-1 and in the 748,284 permit acres on which the wells were located. Your Company's share of the costs was borne by Falconbridge Nickel Mines Limited, which earned a 50% interest in Alminex U.K. as a result. All obligations on the permit lands were met by drilling these tests and, at this time, there are no further exploration plans.

DEVELOPMENT

Non-Unitized Properties

Willey, Ontario (Alminex interest 20%)

Bluewater et al Dunwich 1-23-I was drilled and completed as a Cambrian oil producer on the north side of the Willey field. Additional lands are available for development if production from this well warrants.

Pendor, Alberta (Alminex interest 15%)

In order to reverse declining production, Home CMG Pendor 10-5-3-8 W4M, was drilled and completed as a producer in the Basal Quartz (Cretaceous) gas reservoir.

Bashaw, Alberta (Alminex interest 12.5%)

Home Almx Bashaw 7-10-42-22 W4M was a northwest offset to a 1962 gas discovery in the Viking and Basal Quartz sands (Cretaceous) in which Alminex shared. The new well, which is presently suspended, is also capable of production in both reservoirs.

Sunchild, Alberta (Alminex interest 14.6%)

Your Company joined in a pooling of acreage in order to drill AmHess et al Sunchild 6-11-43-10 W5M, a north offset to a gas discovery in the Pekisko formation (Mississippian). Although gas was recovered on test, the production potential was uneconomic and the well was abandoned.

Whitecourt, Alberta (Alminex interest 2.8%)

Alminex has only a small interest in Pacific et al Whitecourt 11-25-59-12 W5M which was located on lands pooled for drilling. The test was completed and in November went on production into the new gas processing plant in which Alminex has a 2.3% interest. Your Company has interests up to 12.5% in other completed wells in the area as well as in additional undeveloped acreage.

Unitized Properties and Plants

Bindloss Unit, Alberta (Alminex 8.0%)

In order to meet and maintain the higher gas requirements of Trans-Canada Pipe Lines Limited two wells were drilled. Canex Bindloss 6-33-22-3 W4M and Canex Bindloss 10-6-23-4 W4M were completed in the Viking reservoir and placed on production.

Carstairs Unit, Alberta (Alminex interest 10.1%)

Home Unit Carstairs 10-4-30-2 W5M and Carstairs Elkton Unit 14-16-30-2 W5M were drilled and completed to provide increased gas to Trans-Canada under the amended contract. Carstairs 14-16 was placed on production in November; however, Carstairs 10-4, because it is not immediately needed, will not deliver gas until next year. Enlarged facilities to increase the processing capacity of the gas plant from 260 MMcf/day to 280 MMcf/day have been constructed and are undergoing final testing.

Harmattan Leduc Unit, Alberta (Alminex interest 4.5%)

In order to ensure an adequate supply of gas to the sulphur extraction plant, Cdn-Sup Unit Harm. 1-17L-32-4 W5M was completed and is producing.

West Provost Unit, Alberta (Alminex interest 6.7%)

Two wells were drilled and completed in order to maintain gas production from the Viking reservoir. Dalex Provost 11-2-35-8 W4M and 6-18-36-7 W4M were both successfully completed and went on production in January, 1970.

Mitsue Unit, Alberta

Before unitization, Berk. Home et al Mitsue 10-18-71-3 W5M, (Alminex interest 12.5%) was successfully completed as a Gilwood oil well on the east side of the Mitsue field. Subsequently, the land containing the well and other developed acreage in which Alminex had an interest were added to the Mitsue Unit and increased your Company's participation to 1.1%. In order to conserve solution gas, facilities were constructed by the Unit to gather and process all of the gas produced with the oil, but due to delays they will not go into operation until the spring of 1970.

Marten Hills South Unit, Alberta (Alminex interest 21.0%)

Unitization of the southern part of the field was completed in 1969. Following some difficulty with the air strip, the Marten Hills South gas processing plant was successfully completed and went on production during November as planned. Because of increased demands by Trans-Canada an additional compressor will be installed in January, 1970, and a development well will be drilled to provide standby productive capacity.

General

The accelerating increases in oil exports to Districts I, II and IV in the United States, evident during the latter months of 1969 and the early months of 1970, were recently restricted by President Nixon to 395,000 bbls./day retroactive to March 1, 1970. This is an increase of 8.0% over the exports to these districts in 1969. Prior to the restriction, Alberta oil fields having large recoverable reserves were called upon to supply most of the additional demand. Alminex has interests in several such fields, i.e. Mitsue, Swan Hills, Virginia Hills, and plans were implemented to increase productivity. However, it was recognized that the higher demand could be curtailed, and only those projects were undertaken which could be justified by the expected market requirements over the near-term. During the remaining months of 1970 oil allowables will not match those enjoyed during January and February, but average production during the year should show a moderate increase over 1969 and this trend is expected to continue.

Reserves

The following table shows the Company's estimated proven and probable reserves of oil, natural gas liquids and sulphur as of December 31, 1969 and for comparison those of December 31, 1968.

	Dec. 31, 1969	Dec. 31, 1968		Dec. 31, 1969	Dec. 31, 1968
CRUDE OIL RESERVES (Millions of Barrels)			NATURAL GAS (Billions of Cubic Feet)		
Proven Reserves	38.43	39.28	Proven Reserves	166.54	160.39
Probable Reserves	7.05	6.87	Probable Reserves	10.75	10.54
NATURAL GAS LIQUIDS (Millions of Barrels)			SULPHUR (Thousands of Long Tons)		
Proven Reserves	4.04	4.28	Proven Reserves	228	237
Probable Reserves	1.25	1.25	Probable Reserves	15	15

Land

The following table summarizes Alminex Limited land holdings under reservation and lease categories as to gross and net acres including those of its wholly owned subsidiary, Alminex (U.K.) Limited, as of December 31, 1969.

	Reservations		Leases		Totals	
	Gross	Net	Gross	Net	Gross	Net
Alberta	198,656	29,572	1,503,315	305,147	1,701,971	334,719
Saskatchewan and Manitoba	161,440	46,506	135,589	33,264	297,029	79,770
British Columbia	—	—	78,182	5,981	78,182	5,981
Ontario	—	—	30,181	6,036	30,181	6,036
Yukon and N.W.T.	1,743,510	872,137	268,719	43,928	2,012,229	916,065
Arctic Islands	7,342,362	5,653,564	—	—	7,342,362	5,653,564
North Sea—Alminex (U.K.)	748,284	187,071	—	—	748,284	187,071
	<u>10,194,252</u>	<u>6,788,850</u>	<u>2,015,986</u>	<u>394,356</u>	<u>12,210,238</u>	<u>7,183,206</u>

The increase in gross and net acreage is due to the acquisition of additional Arctic Islands and N.W.T. Permits totalling in excess of one million acres.

1969 Drilling Record

Exploratory Wells (Gross)

	Dry Holes	Oil Disc.	Gas Disc.	Susp.
North Sea	2	—	—	—
Ontario	1	—	—	—
Saskatchewan	4	2	—	—
Alberta: Southern	3	—	1	—
Central	5	—	2	1
Northern	3	—	—	—
British Columbia	1	—	—	—
Northwest Territories	1	—	—	—
Yukon	—	—	—	1
	<u>20</u>	<u>2</u>	<u>3</u>	<u>2</u>

Development Wells (Gross)

	Dry Holes	Oil Wells	Gas Wells
Ontario:			
Willey	—	1	—
Alberta:			
Pendor	—	—	1
Bindloss	—	—	2
Carstairs	—	—	2
Harmattan Leduc	—	—	1
West Provost	—	—	2
Medicine River	1	—	—
Bashaw	—	—	1
Sunchild	1	—	—
Whitecourt	—	—	1
Mitsue	—	1	—
	<u>2</u>	<u>2</u>	<u>10</u>

Producing Interests:

OIL

UNITIZED FIELDS	UNIT INTEREST	PRODUCTION	
	%	1969	1968
(Barrels — after royalty)			
Alberta			
Swan Hills Unit #1	5.10	575,742	530,887
Virginia Hills Unit #1	3.82	146,696	125,560
Inverness Unit #1	7.43	127,067	149,097
Harmattan-Elkton Unit #1	8.81	106,516	108,112
Mitsue Gilwood Sand Unit #1	1.12	86,777	52,965
North Pembina Cardium Unit #1	0.42	28,433	25,199
Westward Ho Unit #1	7.65	19,235	25,309
Crossfield Cardium Unit #1	7.80	16,555	23,727
Harmattan East Unit #1	1.17	16,531	16,330
Freeman Unit #1	5.78	8,005	8,992
House Mountain Unit #4	1.68	4,895	2,798
Sundre Unit #1	0.21	1,398	1,431
Pembina Cardium Unit #3	1.88	1,118	1,173

NON-UNITIZED FIELDS

	WELLS			
	Gross	Net		
Alberta				
Pembina	21	1.88	28,819	26,115
Erskine	21	2.63	14,056	22,401
Mitsue	1	0.13	3,355	1,278
Medicine River	3	0.38	2,534	2,325
Stettler	1	0.13	1,348	1,286
Other non-unit interests	—	—	339	945
Saskatchewan				
Browning-Clarilaw	5	1.25	10,831	14,541
Midale South	1	0.40	7,843	10,037
Ontario				
Willey-Dunwich	8	0.68	3,922	2,576
TOTAL	61	7.48	1,212,015	1,153,084
Daily Average			3,321	3,151

GAS & NATURAL GAS LIQUIDS

UNITIZED FIELDS	UNIT INTEREST	GAS PRODUCTION		NGL PRODUCTION	
	%	1969	1968	1969	1968
Alberta		(MMcf. — after royalty)		(Bbls. — after royalty)	
Carstairs Elkton Unit	10.15	3,046.831	2,714.156	181,207	150,602
Bindloss Viking Sand Gas Unit	7.97	1,040.574	767.064	—	—
Swan Hills-Virginia Hills Area	—	369.024	351.031	—	—
Retlaw Unit #1	14.87	253.802	216.008	3,578	4,053
Harmattan Leduc Unit #1	4.49	145.676	161.995	—	—
West Provost Viking Gas Unit	6.66	140.679	150.260	11	50
Calgary Elkton Unit #1	0.40	137.314	132.710	4,576	4,266
Calgary Crossfield Unit #1	0.02	}			
South Elkton Unit #1	11.74		137.296	99.726	3,708
Marten Hills South Gas Unit #1	20.95	115.987	—	—	—
Atlee-Buffalo-Jenner Unit	7.38	54.465	77.773	—	—
Crossfield Turner Valley Unit #1	0.09	30.864	29.245	1,793	1,580
Erskine Gas Unit #1	2.79	22.475	23.007	—	—
Sylvan Lake Gas Unit #1	0.05	6.093	4.961	—	—
Harmattan-Elkton Unit #1	2.84	—	—	47,927	52,985
Harmattan East Unit #1	0.39	—	—	6,131	7,006

Saskatchewan

Coleville Smiley Viking Sand			
Gas Unit	0.28	18.418	17.786
Hoosier Viking Sand Gas Unit	0.25	8.104	7.730

NON-UNITIZED FIELDS

	WELLS			
	Gross	Net		
Alberta				
Pendor	6	0.90	155.671	205.920
Braeburn	2	0.55	46.967	67.659
Whitecourt	4	0.28	8.000	—
Other non-unit interests	—	—	5.528	4.659
TOTAL	12	1.73		

ROYALTY INTERESTS	40.845	41.697		
TOTAL	5,784.613	5,073.387	248,931	223,590
Daily Average	15.848	13.900	682	611
OIL + NATURAL GAS LIQUIDS				
Daily Average			4,003	3,762

SULPHUR

Alberta	PRODUCTION (Long tons)	
	1969	1968
Harmattan Leduc Unit #1	8,927	9,016
Carstairs-Crossfield	608	519
Calgary Units	138	145
TOTAL	9,673	9,680

ALMINEX LIMITED

STATEMENT OF INCOME

Year ended December 31, 1969 (with comparative figures for 1968)

	1969	1968
REVENUE:		
Production, less royalties	\$4,775,003	\$4,713,879
Investment and other income	15,029	22,899
	<u>4,790,032</u>	<u>4,736,778</u>
EXPENSES:		
Operating expenses	523,044	537,325
Administrative and general expenses	154,097	150,360
Exploratory drilling and dry hole costs	429,120	361,598
Geophysical and geological expenses	265,972	580,018
Unproven property expense	327,632	276,268
Interest on long-term debt	52,150	96,075
	<u>1,752,015</u>	<u>2,001,644</u>
Income before write-offs and income taxes	<u>3,038,017</u>	<u>2,735,134</u>
Property surrendered	22,670	11,754
Depletion	880,354	830,000
Depreciation	497,580	401,135
	<u>1,400,604</u>	<u>1,242,889</u>
Income before income taxes	1,637,413	1,492,245
Income taxes (note 6)	694,000	745,000
NET INCOME FOR THE YEAR	<u>\$ 943,413</u>	<u>\$ 747,245</u>

STATEMENT OF DEFICIT

Year ended December 31, 1969 (with comparative figures for 1968)

	1969	1968
DEFICIT AT BEGINNING OF YEAR		
As previously reported	\$1,587,892	\$1,214,052
Adjustments of prior years		
Depreciation	—	270,491
Income taxes	—	(66,705)
As restated	<u>1,587,892</u>	<u>1,417,838</u>
Net income for the year	943,413	747,245
	<u>644,479</u>	<u>670,593</u>
Dividends paid	917,479	917,299
DEFICIT AT END OF YEAR	<u>\$1,561,958</u>	<u>\$1,587,892</u>

ALMINEX

(Incorporated under the laws of the State of Nevada)

BALANCE SHEET

(with comparative figures for 1968)

ASSETS

	<u>1969</u>	<u>1968</u>
CURRENT ASSETS:		
Cash	\$ 260,582	\$ 272,061
Marketable securities, at cost (quoted market value 1969, \$11,688; 1968, \$60,312)	9,650	59,650
Accounts receivable	484,228	439,761
Inventory, at lower of cost and net realizable value	41,908	32,792
Prepaid expenses	9,740	5,134
	<u>806,108</u>	<u>809,398</u>
INVESTMENT IN SUBSIDIARY COMPANY (note 1)		
Shares, at cost	302	302
Advances	250,124	204,129
	<u>250,426</u>	<u>204,431</u>
OTHER ASSETS:		
Investments, at cost	8,551	8,551
Refundable deposits	115,518	113,396
Special refundable tax	15,399	31,711
	<u>139,468</u>	<u>153,658</u>
PROPERTY, PLANT AND EQUIPMENT (note 2)	44,855,428	43,695,645
Less accumulated depletion and depreciation	11,485,641	10,107,708
	<u>33,369,787</u>	<u>33,587,937</u>
	<u>\$34,565,789</u>	<u>\$34,755,424</u>

Approved by the Board

F. R. BURTON, *Director*

W. F. JAMES, *Director*

L I M I T E D

laws of Canada)

ECEMBER 31, 1969

December 31, 1968)

LIABILITIES

	<u>1969</u>	<u>1968</u>
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 95,115	\$ 71,452
Income taxes payable	7,805	467,666
Due to affiliated company	75,954	—
Long-term debt due within one year	534,000	552,000
	<u>712,874</u>	<u>1,091,118</u>
LONG-TERM DEBT (note 3)		
Bank loans, secured	872,000	734,000
Less amount included in current liabilities	534,000	552,000
	<u>338,000</u>	<u>182,000</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 4):		
Authorized		
10,000,000 Shares without par value		
Issued		
7,645,661 Shares (1968 — 7,644,161)	35,006,782	35,000,107
CONTRIBUTED SURPLUS	70,091	70,091
DEFICIT	(1,561,958)	(1,587,892)
	<u>33,514,915</u>	<u>33,482,306</u>
	<u>\$34,565,789</u>	<u>\$34,755,424</u>

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
ALMINEX LIMITED

We have examined the balance sheet of Alminex Limited as at December 31, 1969 and the statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1969 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CALGARY, Alberta
March 2, 1970

THORNE, GUNN, HELLIWELL & CHRISTENSON

Chartered Accountants

ALMINEX LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1969 (with comparative figures for 1968)

	<u>1969</u>	<u>1968</u>
SOURCE OF FUNDS:		
Income before write-offs and income taxes	\$3,038,017	\$2,735,134
Income taxes	(694,000)	(745,000)
	<u>2,344,017</u>	<u>1,990,134</u>
Increase in long-term debt	156,000	—
Decrease in other assets	14,190	—
Issue of shares	6,675	—
	<u>2,520,882</u>	<u>1,990,134</u>
 APPLICATION OF FUNDS:		
Acquisition of properties (net)	259,214	29,553
Development of proven properties	267,679	145,676
Additions to plant and equipment (net)	655,561	232,628
	<u>1,182,454</u>	<u>407,857</u>
Decrease in long-term debt	—	958,000
Dividends paid	917,479	917,299
Advances to subsidiary company	45,995	5,703
Increases in other assets	—	41,692
	<u>2,145,928</u>	<u>2,330,551</u>
INCREASE (DECREASE) IN WORKING CAPITAL	374,954	(340,417)
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	(281,720)	58,697
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	<u>\$ 93,234</u>	<u>\$ (281,720)</u>

ALMINEX LIMITED

Notes to Financial Statements

Year ended December 31, 1969

1. Investment in subsidiary company:

The accounts of Alminex (U.K.) Limited, a company participating in a joint exploration program in the North Sea, have not been consolidated in the financial statements because the subsidiary is in the exploration stage and has no profit or loss to December 31, 1969. Pursuant to an agreement in 1966 between Alminex Limited and Falconbridge Nickel Mines Limited, during 1969 "Falconbridge" earned a 50% interest in Alminex (U.K.) Limited by providing funds to drill two wells, both were dry.

2. Property, plant and equipment:

	1969			1968
	Cost	Accumulated depletion and depreciation	Net	Net
Proven properties, including development	\$38,225,219	\$ 8,080,354	\$30,144,865	\$30,698,891
Unproven properties	1,316,711	—	1,316,711	1,138,816
Plant and equipment	5,313,498	3,405,287	1,908,211	1,750,230
	<u>\$44,855,428</u>	<u>\$11,485,641</u>	<u>\$33,369,787</u>	<u>\$33,587,937</u>

The company's accounting practice is to transfer total property costs of an area from unproven to proven properties when production commences. Proven property costs, including the costs of drilling productive wells, are depleted on a unit of production method based on the total of estimated proven and probable reserves of oil and gas.

Property carrying charges, cost of dry holes drilled and exploration expenses are charged against income as incurred. Unproven property costs are charged to income when the properties are surrendered.

Depreciation is provided on the diminishing balance method at maximum rates permissible under the Canadian Income Tax Act.

3. Long-term debt:

Bank loans, maturing at various dates to December 31, 1974, are secured by registered general assignment of accounts receivable and general assignment of the company's interest in certain properties.

4. Capital stock:

At December 31, 1969, there were outstanding options to employees to purchase a total of 17,000 shares at \$4.45 per share (exercisable cumulatively in five equal instalments to December 31, 1973.) During 1969, 1,500 shares were issued to employees for a cash consideration of \$6,675.

5. Remuneration to directors:

Remuneration for the year to directors holding positions as officers or employees amounted to \$55,000. (\$62,175 in 1968). No directors' fees as such were paid in 1969 or 1968.

6. Income taxes:

Under the provisions of the Canadian Income Tax Act property and development expenditures are deductible in arriving at taxable income. Any such expenditures not deducted in one year may be carried forward to be applied against future income. All such available costs have been deducted for income tax purposes, except approximately \$51,000 which may be deducted from future income from property acquired from a predecessor company.

The Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes which originate in financial years commencing on or after January 1, 1968. The company, however, in common with many other companies in Canada, believes that tax allocation in respect of property and development costs is not appropriate, and this position is accepted by accounting authorities outside Canada.

If the tax allocation basis in respect of excess claims for property and development costs had been followed in current and prior years, net income would have been reduced by approximately \$114,000 in 1969, increased by approximately \$2,000 in 1968, and the cumulative amount of deferred tax credits to December 31, 1969, would have been approximately \$2,587,000.

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ALMINEX
LIMITED

Interim Report

June 30, 1969

July 31, 1969

TO THE SHAREHOLDERS:

Alminex production of crude oil and natural gas liquids increased during the first six months of 1969 compared to the same period of 1968, natural gas and sulphur production declined. On balance, your Company's gross production income showed a small decrease but net income increased due to lower exploration costs.

PRODUCTION

The following table shows the net average daily production for the first six months of 1969 and 1968:

	1969	1968	Increase (Decrease)
Oil & Natural Gas			
Liquids (bbls./day)	3834	3764	1.9%
Gas			
(millions cu. ft./day)	14.0	14.5	(3.4%)
Sulphur			
(long tons/day)	26	31	(16.1%)

The increase in the production of crude oil over the first six months of 1968 was 1.8% and NGL 2.1%. The decrease in gas production was due to the loss by fire of the West Provost gas plant and a number of other minor factors but production is expected to rise during the remainder of the year. Sulphur production exceeded sales.

FINANCIAL

Shown in the following tables are the unaudited financial results of your Company's operations for the first six months of 1969 and their comparison with the same period in 1968:

	1969	1968
Gross Production —		
after royalty	\$2,279,000	\$2,409,300
Cash Earnings — after all		
costs except depreciation		
and depletion	\$1,281,200	\$1,096,300
Net Income before Taxes	\$ 702,000	\$ 436,200
Provision for Income Tax	\$ 366,400	\$ 284,100
Net Profit	\$ 335,600	\$ 152,100

Gross production income decreased 5.4% over the first six months of 1968. Because of lower outlays for seismic, exploration costs were less and despite a higher provision for income tax net profit increased 121%.

Alminex paid a dividend of five cents per share on June 27, 1969. Canadian shareholders are entitled to claim a full 20% depletion allowance on this dividend.

EXPLORATION

During the first six months of 1969 Alminex participated in drilling ten exploratory wells. Eight were dry holes, but the two successful wells extended the limits of the South Marten Hills gas field (Alminex approximately 22%) and added significant reserves. Those abandoned were located in Alberta, northeast British Columbia and the Northwest Territories. Six more exploratory wells were drilled by others on farm-outs in which Alminex has an interest. In one of these, a small gas discovery in the Jenner area of Alberta, your Company retained an overriding royalty. The remainder were dry holes. Two of the dry holes were drilled in the North Sea, Falconbridge Nickel Mines Limited earning a 50% interest for bearing your Company's share of drilling expenditures.

During the second half of 1969 Alminex will participate in exploratory wells in central Alberta at Alhambra, Bashaw, Chauvin, Harmattan and Whitecourt. Most of these are gas prospects which are becoming increasingly attractive because of higher gas prices. Alminex has a one-third interest in a large permit in Saskatchewan near the Plato oil field which is undergoing active development. Exploration of the permit lands is expected later in the year.

During the first six months of 1969 Alminex filed on 57,988 acres in the Yukon Territory and 193,496 acres on the mainland of the Northwest Territories. Also, as an equal partner with two other companies, Alminex filed on 645,047 acres in and near Great Bear Lake. In the Arctic Islands your Company increased its substantial landholdings to 7,342,364 gross acres by filing on 275,384 acres on Ellesmere, Parker and Stefansson Islands. The surface geology of your Company's large blocks of land on Victoria and Stefansson Islands is being explored.

DEVELOPMENT

Five development wells were drilled of which two were oil wells, two gas wells and one a dry hole. The oil wells were located in the Willey field, Ontario (Alminex 20%) and the Mitsue field, Alberta (Alminex 12.5%). The gas wells were located at Harmattan Leduc (Alminex 4.5%) and Whitecourt (Alminex 2.8%), both in Alberta.

Additional gas development wells will be drilled this year in several existing fields where Alminex has an interest, in order to meet the increasing contract requirements of Trans Canada Pipe Lines Limited. Production will commence at the new fields, South Marten Hills and Whitecourt, on November 1, 1969, and further development wells will be needed to provide the required volume.

GENERAL

Due entirely to higher United States demand, Alberta's crude oil allowables have increased 9.6% during the first half of this year. Exports to the middle west (Districts I-IV) were restricted on May 1, 1969, under a Canadian-American agreement, otherwise this market would probably have continued to expand. This agreement did not limit exports to the west coast (District V) which took sharply higher volumes of Canadian oil due to a production shortfall at Cook Inlet, Alaska. Additional cause for concern is the refinery capacity under construction in the Maritimes and Quebec, which is wholly dependent upon foreign production. Gas markets are strong with both domestic and export demand increasing and wellhead prices are rising. Sales of NGL are also continuing their growth trend but sales of sulphur are lower and prices have softened.

Alminex proven and probable oil reserves have declined slightly during the first half of 1969 as production exceeded additions to reserves. Gas reserves increased due to the successful exploratory drilling at South Marten Hills. A number of development wells are planned during the second half of 1969 and your Company will continue its strong exploratory program.

On behalf of the Directors,

President.
F. R. BURTON,

ALMINEX LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for six month period ended June 30, 1969 with comparative figures for 1968 (Unaudited)

SOURCE OF FUNDS:	1969	1968
Operations:		
Income before write-offs and income taxes	\$1,281,200	\$1,096,300
Income taxes	366,400	284,100
	<hr/>	<hr/>
	914,800	812,200
Issue of shares	6,700	-
	<hr/>	<hr/>
	921,500	812,200
	<hr/>	<hr/>
APPLICATION OF FUNDS:		
Acquisition of properties	69,300	700
Development of properties	115,000	24,100
Additions to plant and equipment (net)	282,300	143,400
Decrease (increase) in long term debt	(36,000)	366,000
Dividends paid	382,300	382,200
Increase in other assets	35,000	3,700
	<hr/>	<hr/>
	847,900	920,100
	<hr/>	<hr/>
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	73,600	(107,900)
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	(279,100)	(8,000)
	<hr/>	<hr/>
WORKING CAPITAL (DEFICIENCY) AT JUNE 30	(\$ 205,500)	(\$ 115,900)
	<hr/>	<hr/>